

**REPORT OF THE AUDITOR-GENERAL TO THE COUNCIL AND WESTERN CAPE PROVINCIAL PARLIAMENT ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF THEEWATERSKLOOF MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2007**

**REPORT ON THE FINANCIAL STATEMENTS**

**Introduction**

1. I have audited the accompanying financial statements of the Theewaterskloof municipality which comprise the balance sheet as at 30 June 2007, the income statement and cash flow statement for the year then ended, and a summary of the significant accounting policies and other explanatory notes, as set out on pages 11 to 20.

**Responsibility of the accounting officer for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the entity-specific basis of accounting, as set out in accounting policy note 1 to the financial statements and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA). This responsibility includes:
  - designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
  - selecting and applying appropriate accounting policies
  - making accounting estimates that are reasonable in the circumstances.

**Responsibility of the Auditor-General**

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
6. An audit also includes evaluating the:
  - appropriateness of accounting policies used

- reasonableness of accounting estimates made by management
- overall presentation of the financial statements.

7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Basis of accounting**

8. The municipality's policy is to prepare financial statements on an entity-specific basis of accounting, as set out in accounting policy note 1 to the financial statements.

### **Basis for qualified opinion**

#### **9. Fixed assets**

As disclosed in note 6, fixed assets with the value of R115 million has been written off/transferred during the year. The adjusted balance has not been further analysed by the municipality to determine and confirm either the disposal or the location of the assets comprising this balance and hence confirm the movements over the year. The closing balance was consequently misstated by an unquantifiable amount, which would equate to the cost or fair value of the assets, as indicated, had they been determined. Consequently I was unable to verify the completeness of the closing balance.

### **Qualified opinion**

10. In my opinion, except for the effects of the matters described in the basis for qualified opinion paragraph, the financial statements of Theewaterskloof Municipality as at 30 June 2007 and its financial performance and cash flows for the year then ended have been prepared, in all material respects, in accordance with the basis of accounting as set out in note 1 to the financial statements and in the manner required by the MFMA.

### **Emphasis of matter**

I draw attention to the following matter.

### **Basis of Accounting**

11. As set out in accounting policy note 1.1 of the financial statements the National Treasury approved a deviation from the basis of accounting applicable to the municipality in terms of *General Notice 552* issued in *Government Gazette No. 30013 of 27 June 2007*.

### **OTHER MATTERS**

I draw attention to the following matters that are ancillary to my responsibilities in the audit of the financial statements:

## **Non-compliance with applicable legislation**

### **Municipal Finance Management Act (MFMA)**

12. The municipality did not comply with the following sections of the MFMA.

- Creditors were not always paid within 30 days as required by section 65(2)(e) of the MFMA.
- The municipality does not have a systems of delegation as required by section 59(1) of the MFMA

### **Value-added tax act (VAT)**

13. The municipality did not comply with the following sections of the VAT Act:

- Section 8(5A) of the VAT Act regarding the accounting for VAT on grants received as well as the VAT claimed on expenses related to the utilisation of such grants.
- Section 11(2)(w) of the Vat Act stipulates that property rates charged by the municipality are zero-rated supplies and that input VAT could be claimed on related expenses.
- Paragraph 3 of Regulation R.270, *Government Gazette No. 297141* of March 2007 requires municipalities to calculate input tax by using the turnover-based method of apportionment of goods and services acquired.

## **Matters of governance**

14. A functioning system of internal audit, as required by section 62(1)(c)(ii) of the MFMA, did not exist for part of the year.

## **Material corrections made to the financial statements submitted for auditing**

15. The financial statements, approved by the accounting officer and submitted for auditing on 31 August 2007, have been significantly revised in respect of the following misstatements identified during the audit:

- The provision for bad debts was adjusted by R5 562 967 which resulted in a decrease in debtors and retained earnings by this amount. This was as a result of a debt of R7 489 531 raised, relating to expenses paid on behalf of the provincial government for library services, for which there was no contractual obligation to refund such. There was also an incorrect application of the bad debt provision accounting policy and the provision was decreased by R1 926 565.
- The cash flow did not reflect an amount of R374 177 being the proceeds on the disposal of fixed assets as there was an incorrect application of the IMFO disclosure requirements.
- Statutory funds were overstated by R8 052 996, long-term debtors by R3 373 497 and consumer debtors by R4 679 499 as the process of writing off non-recoverable housing scheme debtors had not been finalised.
- Statutory funds were adjusted by R508 886 as a result of a historical difference relating to the housing scheme loans. This resulted in a decrease in statutory funds and an increase in retained income.
- The provision for leave pay was adjusted by R3 294 449 as a result of the use of an incorrect formula. This resulted in an increase in provisions and a decrease in retained surplus by the said amount.
- A balance brought forward relating to creditors amounting to R195 938 could not be substantiated and resulted in creditors and retained income being overstated.

## **Value-for-money matters**

### **Human resource management**

16. A documented human resource plan was not in place during the year under review and at year-end a 10% vacancy rate existed in the organisational structure of the municipality. The municipality has no established job descriptions and titles and no delegations listing.

### **Infrastructure**

17. Municipal infrastructure projects included on the original budget for the 2006-07 financial year, were not delivered as planned as material under or no expenditure occurred. The total underexpenditure on infrastructure projects amounted to R18,3 million.

A further analysis of the expenditure on infrastructure projects indicated that:

- a total of 12 out of 32 infrastructure projects (38%) on the 2006-07 budget were underspent by 40% or more. The total underexpenditure on these projects amounted to R18,1 million.
- No expenditure was incurred on a total of five infrastructure projects to the value of R1,9 million where funds were budgeted for the 2006-07 financial year.

18. Section 24(b) of the Construction Industry Development Board (CIDB) Act, 2000 (Act No. 38 of 2000) states that:

*"Every client or employer who is soliciting competitive tenders in the construction industry must publish that invitation to tender on the official CIDB website and that solicitation must be in accordance with the Municipal Supply Chain Management Regulations, published by Government Notice No. 868 of 2005, in Gazette number 27636 of 30 May 2005"*

It was found that, in all six projects selected for audit purposes, tenders to the amount of R28,8 million for the appointment of contractors were not advertised on the CIDB website.

### **Internal control**

19. Section 62(1)(c)(i) of the MFMA states that the accounting officer must ensure that the Theewaterskloof Municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes of the matters indicated, as they relate to the five components of internal control. In some instances deficiencies exist in more than one internal control component.

Reporting item	Control environment	Assessment of risks	Control activities	Information and communication	Monitoring
<b>Basis for qualified opinion</b>					
Fixed assets	x		x		x
<b>Other matters</b>					
Non-compliance with applicable legislation	x				x
Matters of governance	x		x		x
Material corrections	x		x		x
Value-for money	x		x		x

#### Unaudited supplementary schedules

20. The supplementary schedules set out on pages 21 to 27 of the financial statements do not form part of the financial statements and are presented as additional information. These schedules have not been audited and accordingly, no opinion is expressed thereon.

### OTHER REPORTING RESPONSIBILITIES

#### Reporting on performance information

21. I was engaged to audit the performance information.

#### Responsibilities of the accounting officer

22. In terms of section 121(3)(c) of the MFMA the annual report of a municipality must include the annual performance report of the municipality prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

In terms of section 121(4)(d) of the MFMA the annual report of a municipal entity must include an assessment by the entity's accounting officer of the entity's performance against any measurable performance objectives set in terms of the service delivery agreement or other agreement between the entity and its parent municipality.

#### Responsibility of the Auditor-General

23. I conducted my engagement in accordance with section 13 of the Public Audit Act, 2004 (Act No. 25 of 2004) read with *General Notice 646 of 2007*, issued in *Government Gazette No.29919 of 25 May 2007* and section 45 of the Municipal Systems Act.

24. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.
25. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

#### **Audit findings (performance information)**

##### **Non-compliance with regulatory requirements**

26. The annual report of the municipality did not include the annual performance report of the municipality in terms of section 46 of the MSA as required by section 121(3)(c) of the MFMA as the performance information process was not yet fully implemented.

##### **Internal auditing of performance measurements**

27. The municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurements as part of its internal auditing processes as required in terms of section 45 of the MSA.

##### **Performance information not received in time**

28. I was unable to complete the evaluation of the quality of the reported performance information as set out on pages XX to XX of the annual report, since the information was not received during the audit.

#### **APPRECIATION**

29. The assistance rendered by the staff of the Theewaterskloof Municipality during the audit is sincerely appreciated.

*Auditor-General*

Cape Town

20 December 2007



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